

VZCZCXYZ0000
PP RUEHWEB

DE RUEHTA #0480/01 0710937
ZNY CCCCC ZZH
P 110937Z MAR 08
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC PRIORITY 1950
INFO RUCNCIS/CIS COLLECTIVE 0430
RUEHAK/AMEMBASSY ANKARA 2149
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L ASTANA 000480

SIPDIS

SIPDIS

STATE FOR SCA/CEN, EEB
ENERGY FOR EKIMOFF
COMMERCE FOR HUEPER

E.O. 12958: DECL: 03/05/2018
TAGS: [PGOV](#) [PREL](#) [EPET](#) [KZ](#)
SUBJECT: KAZAKHSTAN: PRESSURE BUILDING FOR NEW OIL EXPORT
ROUTES

REF: A. ASTANA 206 B. ASTANA 225 C. ASTANA 338 D.
ASTANA 354

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4(B) AND (D)

11. (C) Summary: On February 27, ExxonMobil Kazakhstan General Manager Steven Rose gave the Ambassador a detailed overview of ExxonMobil's presentation to Kazakhstan on the Kazakhstan Caspian Transportation System (KCTS). ExxonMobil is attempting to be the Kashagan consortium's lead voice in KCTS negotiations. A primary theme of the presentation is that Kazakhstan will face significant oil transport problems without additional export routes. While ExxonMobil is pushing for an ownership interest of the pipeline portion of KCTS, Energy Minister Mynbayev told the Ambassador separately on February 28 that Kazakhstan will build the pipeline on its own. End Summary

Clock Ticking on KCTS

12. (C) Steven Rose, ExxonMobil Kazakhstan General Manager, showed the Ambassador on February 27 an extensive briefing that ExxonMobil gave to KazMunaiGas on their vision for the Kazakhstan Caspian Transportation System (KCTS) (Note: Rose said that ExxonMobil would be able to share the same briefing material with Eurasian Energy Diplomacy Coordinator Mann). Rose told the Ambassador that ExxonMobil is trying to head the Kashagan consortium's KCTS negotiations, although Total has thus far opposed ExxonMobil's leadership. Rose first showed the Ambassador ExxonMobil's projections on oil production in Kazakhstan through 2020. ExxonMobil's basic message, said Rose, is that "time is running short" because current routes are "tightening up". The surge will result largely from increased Tenghiz output and the start of Kashagan production. (Rose believes Kashagan will initially produce at least 300,000 barrels per day (bpd) and could push up to 400,000 to 450,000 bpd.) Rose added that KCTS must come on line before CPC expansion and expressed his belief that the Russians will not invest in CPC until there is another competing route.

13. (C) Rose then defined for the Ambassador ExxonMobil's core principles for KCTS. ExxonMobil must have guaranteed priority access to export capacity, the right to expand capacity, stable tariffs, and guarantees of timely construction. Rose said that KazMunaiGas officials raised no concerns when told of these core principles.

14. (C) Rose told the Ambassador that the Eskene-Kurik

pipeline will have a capacity of up to 60-90 million tons per annum (1.2 to 1.8 million bpd). The pipeline will have a 42 to 48 inch line, with two to four pumping stations between Eskene and Kurik. Section two of the system is the trans-Caspian marine transport. Rose said tankers are the starting point with a Trans-Caspian pipeline a future consideration. He noted that a pipeline and tankers are not mutually exclusive because tankers provide security if another route is lost. Rose defined section three of the system as terminal and storage facilities near Baku and connection to the Baku-Tbilisi-Ceyhan pipeline and to other post-Baku routes. Rose noted that ExxonMobil and Kazakhstan should be natural allies in developing this strategy - both have stakes in CPC but not in BTC.

15. (C) Rose said that ExxonMobil believes that Kazakhstan's concession law allows them to help build and finance the pipeline while Kazakhstan maintains its ownership stake. Priority access to the KCTS pipeline would belong first to the Kashagan consortium and to Tenghizchevroil, then to equity crude from owners, and then to third parties as determined by Kazakhstan. In other words, said Rose, "let us move our crude and then if there is excess, move it in."

16. (C) The Ambassador asked Rose if Kazakhstan could build the Eskene-Kurik pipeline itself. Rose responded that Kazakhstan has the technical ability to build it. The question, however, is whether they have the financing. Rose noted that ExxonMobil is paying \$1.2 billion a year at Kashagan, and KMG is likely accruing similar costs. If Kazakhstan does build the pipeline, Rose again emphasized, ExxonMobil would require guarantees of stable tariffs, capacity, and rational rate increases.

7.(C) In a meeting with the Ambassador on February 28, Minister of Energy and Natural Resources Sauat Mynbayev stated that Kazakhstan intends to build the Eskene-Kurik pipeline on its own. Financing will not be a problem, he said. If need be, Kazakhstan will dip in to its National Fund. Mynbayev also told the Ambassador that Kazakhstan realizes it will need to offer stable tariffs and other guarantees with the pipeline. (Comment: Mynbayev's statement may help to explain why KMG has been "quiet on the pipeline front" with ExxonMobil, according to Rose. However, Mynbayev's comments may not represent the final word on the Eskene - Kurik pipeline, as Kazakhstan's leadership has delivered a mixed message on its pipeline strategy. Chevron has also proffered a plan calling for a 25% share of the pipeline (reftel C), although Chevron's Eurasia Strategic Business Unit Managing Director James Johnson recently told the Ambassador that Chevron will be comfortable with Kazakhstan building the pipeline as long as it establishes the necessary guarantees.)

Mynbayev on Trans-Caspian Gas, New Production

18. (C) Minister Mynbayev told the Ambassador that a Trans-Caspian gas pipeline makes little economic sense for Kazakhstan because the netback will be too small. Mynbayev also noted an advantage of the Pri-Kaspiskiy gas pipeline. Kazakhstan is building an internal gas pipeline to lessen its dependence on Uzbekistan for gas. With Kazakhstan's gas shortages in its south but its gas in its north, the Pri-Kaspiskiy makes added sense because it will allow Kazakhstan to swap Turkmen gas and avoid moving its own gas from north to south.

19. (C) Mynbayev told the Ambassador that ExxonMobil will soon get an answer, and counterproposal, from Kazakhstan on ExxonMobil's attempt to establish an AMI (area of mutual interest) in an on-shore area from north of Atyrau to the Russian border. ExxonMobil hopes to perform a study of the area after the establishment of the AMI in order to determine its potential.

Comment

¶10. (C) Rose's presentation, and Mynbayev's comments to the Ambassador, indicate that Kazakhstan and its commercial partners have not yet reached a consensus on key details of KCTS. All sides seem to understand, however, the increased urgency of moving forward with KCTS to ensure that it is functioning when Kazakhstani oil production ramps up significantly in the next decade.

ORDWAY